

**Audit Committee
Meeting Minutes
May 2, 2014**

The Town of Bethany Beach Audit Committee held a meeting on Friday, May 2, 2014 at 10:00 a.m. in the Bethany Beach Town Meeting Room, 214 Garfield Parkway, Bethany Beach, DE.

Members present: Patrick Sheplee, Chairman, who presided; Thomas Defibaugh; and Monte Wisbrock.

Also present: Finance Director, Janet Connery; Internal Auditor, Philip Rossi; Herb Geary and Betsy Eicher, TGM Group, LLC; Council persons, Jerry Dorfman, Rosemary Hardiman, and Joseph Healy; Lindey Good, Administrative Secretary; and interested members of the public.

Mr. Sheplee called the meeting to order at 10:00 a.m.

Approval of the Agenda

Mr. Defibaugh made a motion to approve the agenda. The motion was seconded by Mr. Wisbrock and unanimously approved.

Approval of Minutes from the February 14, 2014 Meeting

After a couple of corrections, Mr. Wisbrock made a motion to approve the minutes dated February 14, 2014 as amended. Mr. Defibaugh seconded the motion and it was unanimously approved.

Report by Accounting Firm TGM Group LLC as to This Year's Audit

Ms. Eicher of the TGM Group LLC provided the following report:

The fieldwork began on Monday and was completed yesterday. The Town was extremely prepared so fieldwork was completed quickly and smoothly. The only adjustments needed were for newly available information, not corrections. They will continue work at the office next week and begin working on the financial statement draft.

This year's work included a compliance audit called a Single Audit. This is required when the use of federally sourced funds exceed \$500,000 for the year, and was needed because of the water tower loan. The auditors reviewed project documents and verified compliance with Davis Bacon requirements. The review went well and indicated no problems. This compliance audit will probably be required again next year for the remainder of the tower project.

Mr. Defibaugh asked if the auditors check into contractor records. Ms. Eicher replied that they review the certified payroll documents submitted by the contractors. Ms. Connery added that the State of Delaware will most likely also audit the tower project records, noting that the Town generally undergoes a State audit every three years, and the tower project will touch three fiscal years.

Mr. Sheplee asked if the Streetscape project was audited. Ms. Connery replied that it was not since the State is paying for that directly so the town is not involved with the money.

Mr. Geary added that this year they would prepare two additional "A-133" reports and the Town's financials would include a Schedule of Federal Expenditures for the first time.

Questions/comments by Audit Committee and Internal Auditor

Mr. Sheplee asked the auditors to comment on the employee issue that the Town had last August. Ms. Eicher explained that she reviewed what happened along with the updates to our policies and believes the action taken by the Town was appropriate. She said that as long as the procedures in place are followed, it should not happen again.

Mr. Geary agreed. He said the Town has very good policies, but unfortunately fraud occurs. The Town caught it promptly and took necessary action. He said the Town should continue to be alert, especially if aware that an employee is struggling financially as theft tends to start small and grow if not handled.

Mr. Rossi added that he has increased his internal audit work as a result. He recently found two areas that he is recommending to be addressed. First, he is concerned that parking meter coins collected after regular hours (which is done when a meter is reported to be full) is not properly secured in the safe overnight. Second, he noticed that there is not a written policy on the handling of trolley coin.

Ms. Connery stated that the trolley coin revenue is around \$9,000 per year and is deposited roughly weekly. She said that she will prepare a written policy and talk to the new employee who is now managing the trolleys.

Ms. Connery explained that the next steps in the audit are that the auditors prepare draft financial statements, which they will send to her to review and reconcile. Next she will prepare the Management's Discussion and Analysis (MD&A) section of the statement and send it to the auditors to review. The complete draft should be ready for the Committee by the end of June, so the Committee should plan a meeting for July. The next meeting is scheduled for Monday, July 14th at 10:00 a.m.

Ms. Connery mentioned that they would be adding a few sentences to the Note 11 on Employee Pensions at the request of Council member, Mr. Healy. She explained that our employees participate in two state managed pension plans, which are 98% and 94% funded. The proposed additional text would give the funded ratio of the plans and include a rough calculation of the amount of unfunded liability on the State's books, which relates to Town employees. It is estimated to be between \$100,000 and \$150,000.

Mr. Healy commented that he believes it is important that the Town continue to be aware of the importance of funding employee pensions. While the State of Delaware's plans are well funded, Maryland for comparison has only funded \$39 billion of a \$60 billion liability.

Discussion of the Revised Town Purchasing Policy

Ms. Connery addressed the draft Purchasing Policy as simply a re-writing of the procedures currently being followed. The revision includes detailed direction on parts of the process that was not previously documented.

The Committee discussed several sections of the policy with most of the discussion focused on the exceptions. The Committee asked for, and was given, examples of when “Emergency” purchases and “Change Orders” occur and the frequency.

Mr. Sheplee questioned the process that the policy would take. Ms. Connery explained that it should be the same as was done for the Fund Balance and Investment policies in prior years; a committee is tasked with reviewing the policy then it goes to Town Council for approval, possibly after discussion at a Workshop.

Mr. Dorfman asked that his Budget & Finance Committee be given the policy to review and comment on prior to Town Council adoption. He agreed with emailing the draft to them rather than a formal review at the Committee’s next meeting.

Mr. Wisbrock made a motion to approve the Town Purchasing Policy as amended. Mr. Defibaugh seconded the motion and it was unanimously approved.

Adjourn

Mr. Wisbrock made a motion to adjourn the meeting. The motion was seconded by Mr. Defibaugh and unanimously approved. The meeting was adjourned at 11:10 a.m.